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Revenue Potentials in Southern States

HIGHER EDUCATION of some kind has become a prerequisite for many positions in the South. A job that demanded a high school diploma 15 years ago now demands some college education, and often a degree.

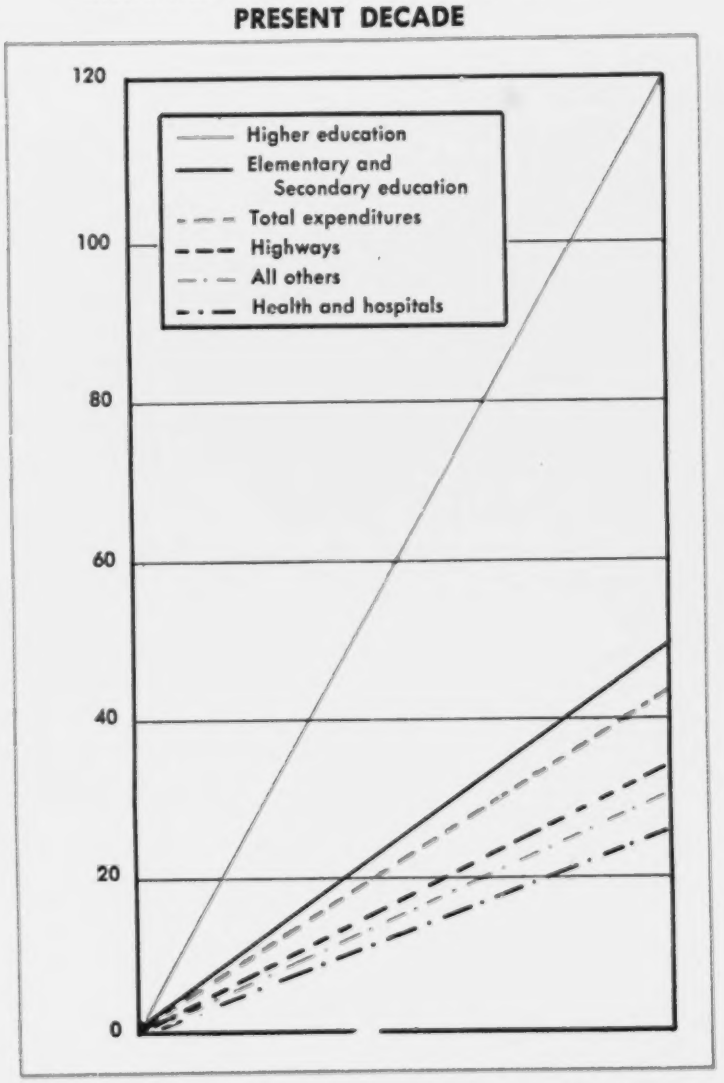
The resulting demand for education has made support of higher education the fastest growing financial responsibility of state and local governments.

The Committee for Economic Development, a private research organization which investigates national fiscal problems, has estimated that the share of state and local tax income going for higher education will increase from 9.5 per cent in 1962 to 12.3 per cent in 1968. Expenditures for higher education will increase 120 per cent; during the same time total expenditures for all state and local government activity will increase only about 50 per cent (Figure 1).

Education's demand on state and local resources will vary in each state, as will the states' ability to meet those demands. But, because education in each state is dependent in great measure upon support from the tax dollar, the Southern Regional Education Board in 1960 asked Professor James W. Martin, a well-known specialist in public finance, to analyze the sources of potential increases in each state's local and state revenue. His findings, published in collaboration with Kenneth E. Quindry of the University of Kentucky, have recently been brought up to date by Mr. Quindry. They show possible sources of future support for state services in the South.

This issue of *Financing Higher Education* is a summary of current information on revenue potentials of the Southern states and their implications for the support of higher education within these states.

FIGURE 1
HIGHER EDUCATION IS THE FASTEST GROWING STATE EXPENDITURE OF THE PRESENT DECADE



Projected percentage increase for selected categories of state and local expenditure, 1958-1968

What Are Revenue Potentials?

Mr. Quindry, for the purpose of this study, defines revenue potential as funds which could be collected by a state if it used a given tax to the extent which is average for the Southern states. The analysis was based on

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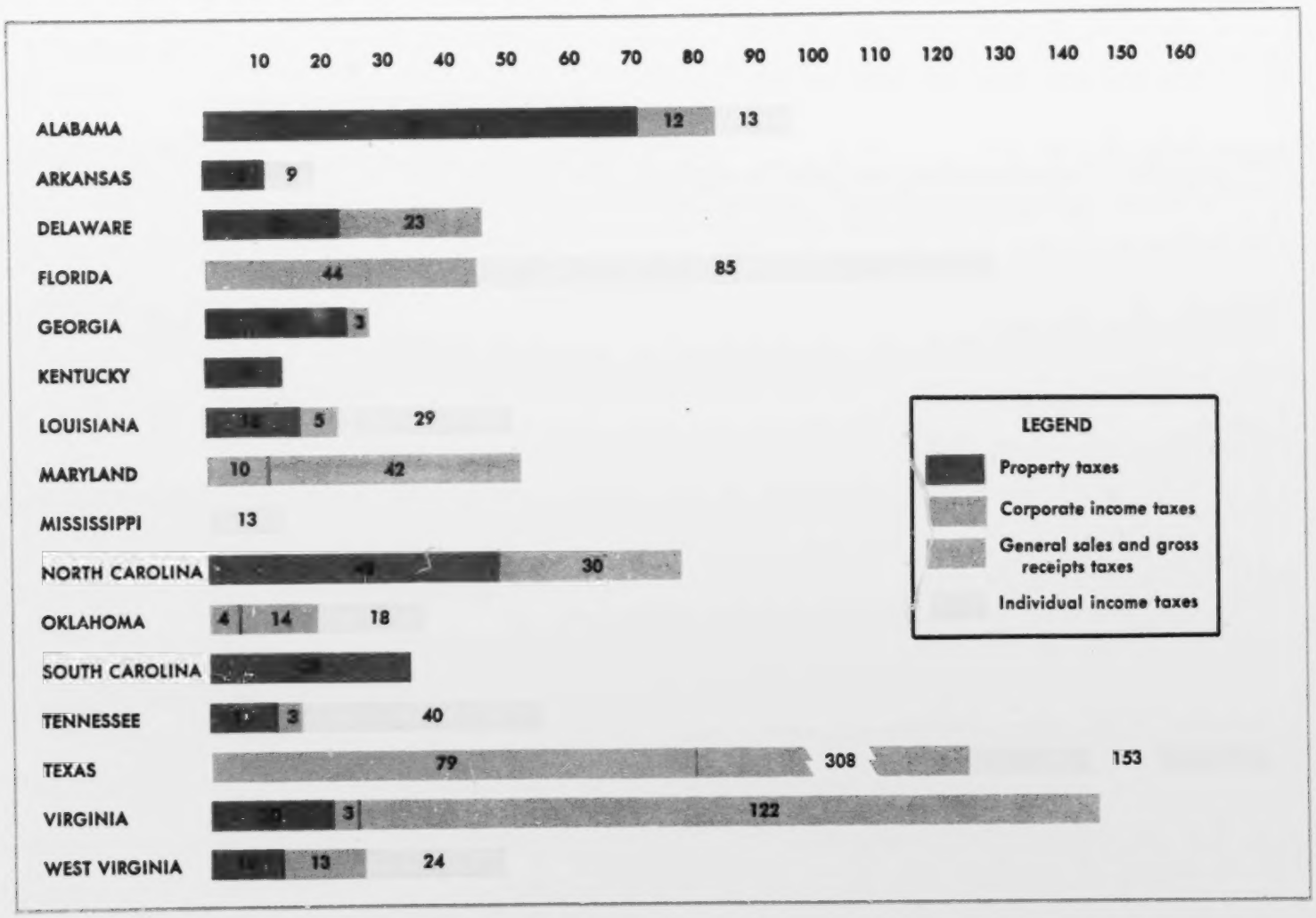
FIGURE 2

FOUR LARGEST UNTAPPED OR UNDER-UTILIZED SOURCES OF STATE OR LOCAL REVENUE



Major examples of unused taxable capacity in Southern Regional Education Board States (in millions of dollars)

the assumption that the average amount of a given kind of tax collected by all states using that tax constitutes a reasonable norm against which individual states can be compared.

For instance, if the 16 Southern states average $3.59 in alcoholic beverage taxes per $1,000 of personal income, it is assumed that any one of the states can also collect $3.59 per $1,000 of personal income.

A state which now uses a given number of taxes could supplement its revenue by legislating tax measures that it doesn't use or by intensifying the use of those used less than the average.

Mr. Quindry cautions that "it is not completely realistic to take this view because if taxpayers contribute in one form, they do not have the money they have already paid out to disburse in another form. At the same time, state experience demonstrates that any state, subject to minor economic reservations, can successfully use additional taxes which experience in other states commends."

How Great Are the Potentials?

In 1957 the largest volume of untapped, potential taxes in Southern states was to be found in (1) general sales and gross receipts taxes, (2) property taxes, (3) individual income taxes, and (4) corporate income taxes not used to the average amount. The current situation is quite similar. Figure 2 presents the potentials for 1961 (it should be noted that changes in tax laws have since altered the picture in several states).

These four taxes together represent a potential of about $1,380,000,000 or about three fourths of the total additional revenue potential which the Quindry report estimates is available to the Southern states. This is 15 per cent more than was reported available in the year 1957.

SOUTHERN REGIONAL EDUCATION BOARD
130 SIXTH STREET, N. W. · ATLANTA 13, GEORGIA · TRINITY 5-9211

MEMORANDUM

To: Southern Editors

From: Katherine Skogstad

Date: August 20, 1963

Re: FINANCING HIGHER EDUCATION, NO. 13

Enclosed is a copy of Financing Higher Education Issue, No. 13 which includes a survey of tax potential in 16 Southern states made by Kenneth R. Quindry of the University of Kentucky. Tables and graphs give state-by-state summaries of potential taxes based on average use of taxation by the states.

Also enclosed is a news release mentioning highlights of the study. I hope these will provide information which will be helpful in working up a localized story for your state.

# # #

SOUTHERN REGIONAL EDUCATION BOARD
130 SIXTH STREET, N. W.
ATLANTA 13, GEORGIA
TR 5-9211

FROM: RUDOLPH PATE

FOR IMMEDIATE RELEASE

A growing demand for education in the South has made support of higher education the fastest growing financial responsibility of state and local governments, the Southern Regional Education Board said today in Financing Higher Education, volume 13.

"The Committee for Economic Development...has estimated that the share of state and local tax income going for higher education will increase from 9.5 per cent in 1962 to 12.3 per cent in 1968," the SREB publication continued. "Expenditures for higher education will increase 120 per cent; during the same time total expenditures for all state and local government activity will increase only about 50 per cent."

Because education in each state is dependent upon support from the tax dollar, the SREB sponsored a study of potential sources of increase in each state's local and state revenue, by Mr. Kenneth E. Quindry of the University of Kentucky. Mr. Quindry, for the purpose of his study, defines revenue potential as funds which could be collected by a state if it used a given tax to the extent which is average for the Southern states. For instance, if the 16 Southern states average $3.59 in alcoholic beverage taxes per $1,000 of personal income, it is assumed that any one of the states can also collect $3.59 per $1,000 of personal income.

- more -

√ SREB was established in 1949 under interstate compact, now ratified by the legislatures of Alabama, Arkansas, Delaware, Florida, Georgia Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

√ SREB aids in the social and economic advancement of the South by assisting states to improve the quality of higher education . . . provid the widest opportunity possible in higher education . . . bu[illegible] educational programs which meet the social and economic needs of the region.

√ SREB is devoted to helping Southern colleges build high quality research and educational programs . . . by providing regional support and utilization of advanced programs . . . and avoiding unnecesssary duplication of facilities among the compact states.

The study turned up these facts. The largest volume of untapped, potential taxes in Southern states was found in these taxes not used to the average amount: (1) general sales and gross receipts taxes; (2) property taxes; (3) individual income taxes, and (4) corporate income taxes.

These four taxes together represent a potential of some $1,380,000,000 or about three fourths of the total additional revenue potential which the Quindry report estimates is available to the Southern states.

For the region as a whole, general sales and gross receipts taxes remain the largest potential source of additional revenue.

The typical Southern state should be able to collect about 17 per cent more than its present tax yield. Eleven of the Southern states could collect an additional 10 to 17 per cent of current yield (Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina and Tennessee.) Other states could possibly collect more--from 31 to 76 per cent of current yield. These are Alabama, Delaware, Texas, Virginia and West Virginia.

A state which now uses a given number of taxes could supplement its revenue by legislating tax measures that it doesn't now use or by intensifying the use of those used less than the average, the Quindry report states.

It cautions, however, "it is not completely realistic to take this view because if taxpayers contribute in one form, they do not have the money they have already paid out to disburse in another form. At the same time, state experience demonstrates that any state, subject to minor economic reservations, can successfully use additional taxes which experience in other states commends."

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For the region as a whole, general sales and gross receipts taxes remain the largest potential source of additional revenue.

Figure 3 shows each state's tax potential as a per cent of amount now collected. This shows that the typical Southern state could collect about 17 per cent more than its present tax yield. Eleven of the states could collect an additional 10 to 17 per cent of current yield (Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, and Tennessee). While these may be fairly comfortable margins, these states are in a lower potential tax bracket than are the remaining states (Alabama, Delaware, Texas, Virginia, and West Virginia) which could collect 31 to 76 per cent of current yield in additional revenue.

The five states with large amounts of tax potential vary widely in total wealth and economic development. For example, tax potential does not correlate with per capita income, nor does it correlate with varying levels of education within the states. A state with high per capita income may have little tax potential and vice versa.

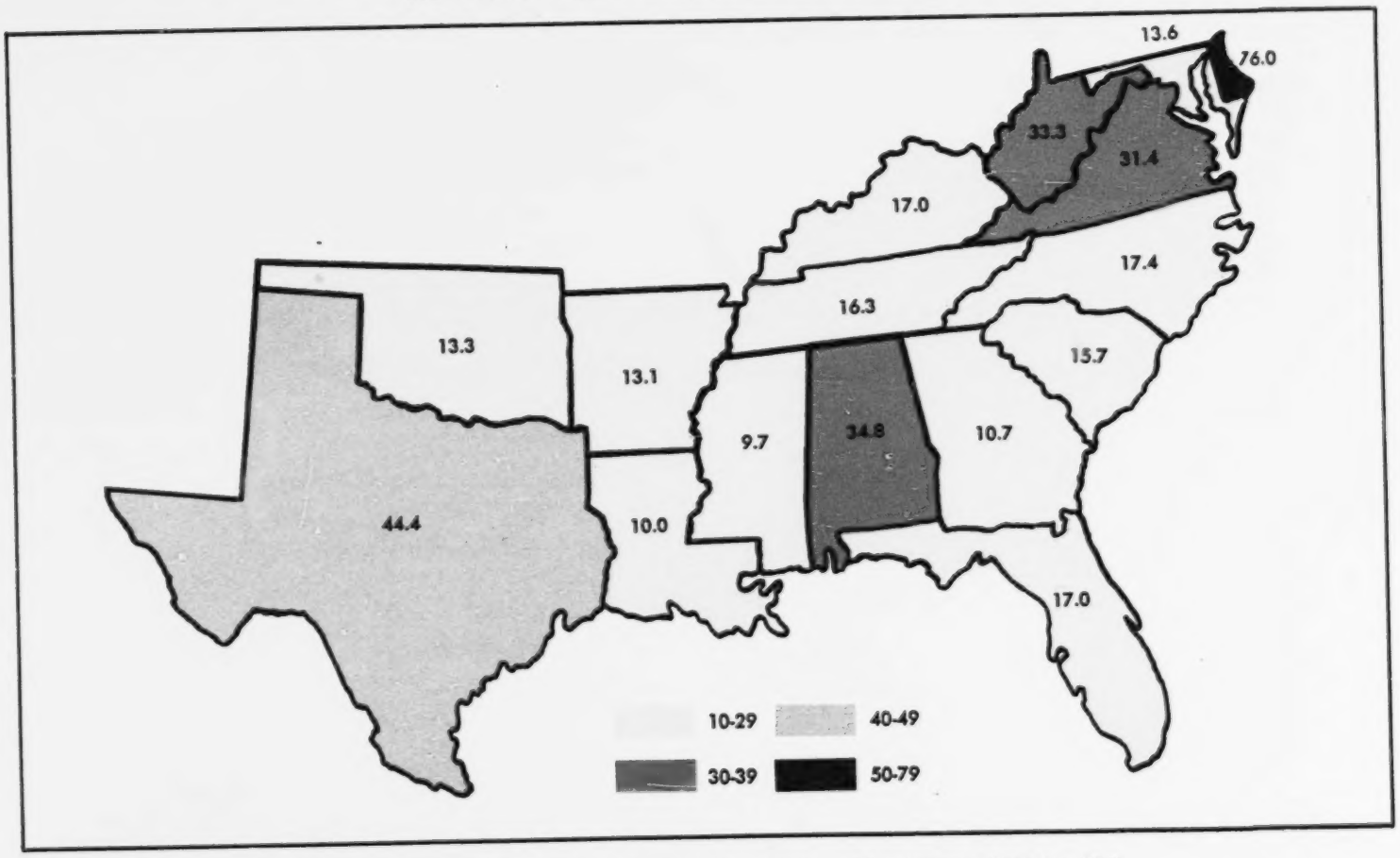
TABLE 1

PER CENT INCREASE IN PERSONAL INCOME: POTENTIAL REVENUE AS A PER CENT OF REVENUE COLLECTED, CHANGE BETWEEN 1957 AND 1961

State	*Per Cent Increase in Personal Income 1957-1961*	*Change in Potential Revenue Between 1957 and 1961*
Alabama	20.8	2.3
Arkansas	22.9	— 1.7
Delaware	19.0	—33.2
Florida	42.4	— 2.3
Georgia	23.4	— 1.2
Kentucky	17.0	—18.9
Louisiana	14.3	— 2.7
Maryland	19.0	— 6.2
Mississippi	27.9	.9
North Carolina	27.3	4.3
Oklahoma	22.2	1.0
South Carolina	25.0	— .7
Tennessee	20.4	— .3
Texas	18.3	— .3
Virginia	22.2	1.0
West Virginia	3.1	—22.7

FIGURE 3

NO STATE LACKS UNTAPPED TAX SOURCES



Per cent which additional potential revenue is of state and local taxes collected in 1961

The major source of tax potential varies with each state—the individual income tax, the sales tax and the property tax are the three taxes which occur as the number one source for states with both low and high potential.

Table 1 compares the tax potential shown in each state for 1957 and 1961. Delaware, West Virginia and Kentucky are the three states which, relatively, have dropped most in available potential. North Carolina, Alabama, Oklahoma, Virginia and Mississippi have gained slightly; the remaining states have lost moderately.

In most cases, a reduction in potential between 1957 and 1961 can be traced to legislation increasing taxation in a particular state. The reduction of potential in Delaware, West Virginia and Kentucky results from a new corporate income tax, a new individual income tax and a new sales tax, respectively, which increase actual taxes collected and reduce potential.

Another state may show an increased potential over four years because rates of average return have gone up in other states using a given tax.

Other increases may result because a state collected less of its collectible potential in 1961 than it did in 1957. Tax potential would also increase if a tax used in 1957 was repealed prior to 1961.

The South and the Nation

The Martin and Quindry reports accept the regional average as a standard against which individual states are compared. However, the regional and state comparisons take on a new perspective when measured against the national tax structure (Table 2).

Texas is the only Southern state which equals the national average in share of total revenue derived from property taxes, while Delaware and Oklahoma are the only Southern states in which death and gift revenues exceed their share in the average state of the nation. On the other hand selective sales and gross receipts taxes (e.g. tobacco or beverage taxes) make up a larger percentage of total tax in every Southern state than they do in the average state of the nation.

The contrast between Southern and national tax practices, summarized graphically (Figure 5), indicates that the most under-used tax in the South, according to the national standard, is the property tax. Severance taxes and selective sales taxes net more in the South than in the nation. The South and the nation rely about equally on the general sales tax, death and gift taxes, income taxes and licenses.

National comparisons of tax structures suggest that different interpretations of revenue potential will result from application of a national yardstick to tax efforts. Such application will be made in a further study of the 50 states now being conducted by Martin and Quindry.

Ability and Effort

Many of the Southern states must make a relatively greater effort at raising public funds for education than other states of the nation because they start the uphill

TABLE 2

PERCENTAGE DISTRIBUTION OF STATE AND LOCAL TAX REVENUE, 1961

(Percentage of Total Tax Revenue)

State	*General Property*	*Sales and Gross Receipts*		*Income*	*Licenses*	*Death and Gift*	*Severance*
		General	*Selective*				
All 50 states	45.0	14.5	18.4	10.2	9.4	1.3	1.2
16 Southern states	33.1	14.1	27.4	9.0	11.0	0.8	4.4
Alabama	18.8	23.4	36.7	8.7	11.8	0.2	0.4
Arkansas	26.0	22.7	24.9	8.7	12.4	0.2	2.1
Delaware	19.5	—	19.9	34.9	24.3	1.4	—
Florida	36.1	17.6	31.3	—	13.2	0.6	a.
Georgia	29.1	25.0	25.1	13.0	7.2	0.2	—
Kentucky	28.7	19.1	20.4	19.4	8.8	1.3	0.1
Louisiana	21.5	17.5	22.8	4.7	8.2	0.7	21.8
Maryland	40.2	11.7	19.8	16.8	8.2	0.7	—
Mississippi	27.9	25.8	24.6	7.2	8.9	0.3	3.9
North Carolina	26.6	13.8	27.7	22.8	7.9	1.2	—
Oklahoma	31.3	13.6	23.2	7.6	12.2	1.7	7.9
South Carolina	22.0	21.7	29.1	16.0	8.3	0.6	—
Tennessee	32.4	21.9	26.1	5.5	12.6	1.3	—
Texas	47.4	—	23.5	—	11.6	0.8	11.4
Virginia	37.1	0.1	35.0	19.9	7.0	0.8	0.1
West Virginia	29.0	30.8	26.9	0.3	10.6	1.1	—

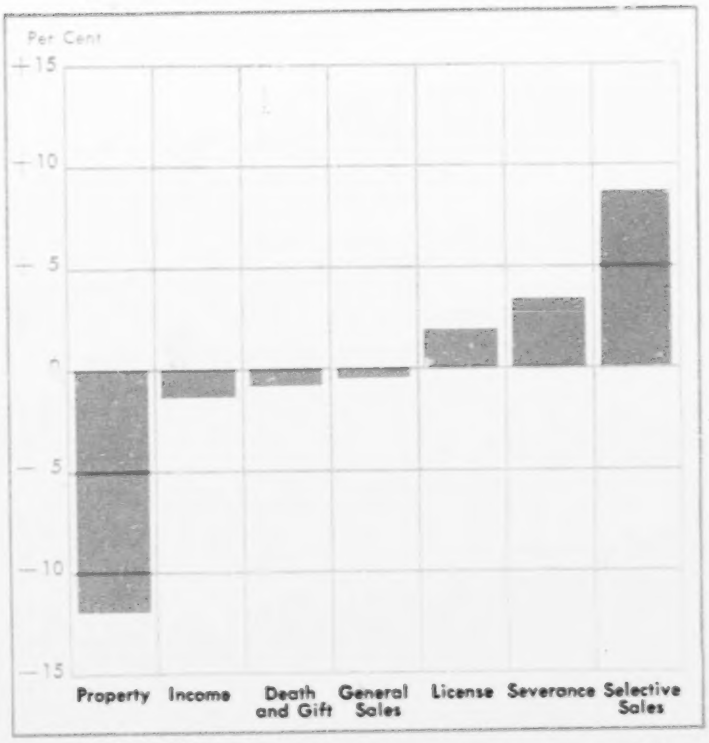
a. Less than 0.05 per cent

climb with fewer resources and because they must provide more *public* higher education than many others.

Professor Seymour Harris of Harvard University, one of the nation's foremost authorities on the economics of higher education, has made an appraisal of each state's need for education and ability to pay for education. He has evaluated the potential demand for higher education in each state, the state's financial capacity to meet the demand, the effort each state is making to meet the demands and the degree of educational achievement which has been attained in the state. These variables cannot be measured by a single index because states vary widely in many ways; for example, in extent to which they rely on private higher education. The revenue requirements of competing state services, and many other factors affect each state's financial investment in higher education.

A telescopic view of Professor Harris's findings for the South is shown in Table 3. Scores for the measurement of the potential demand in each state, the state's capacity, effort, and achievement range from D+ to A+ on a "national curve." For example, considering B or B— as average, Oklahoma, with greater than average demand (A—) and less than average capacity (C) makes a greater than average effort (B+) and scores fairly high in achievement (A—).

FIGURE 4
THE SOUTHERN PATTERN OF TAXATION



Amount by which South differed from nation in per cent which selected taxes were of total state revenue, 1961

TABLE 3

DEMAND FOR HIGHER EDUCATION IN THE SOUTH STRAINS AVAILABLE RESOURCES

State	*Potential Demand*	*Capacity*	*Effort*	*Achievement*
Alabama	A+	C—	C	C—
Arkansas	A+	D+	B	D+
Delaware	D+	A+	D+	B
Florida	D+	B	B	B—
Georgia	A	C—	B—	C—
Kentucky	A	C—	C	C
Louisiana	A—	C	A+	C+
Maryland	C	A	C—	B—
Mississippi	A+	D+	A+	C—
North Carolina	A	D+	C+	C—
Oklahoma	A—	C	B+	A—
South Carolina	A+	D+	B—	D+
Tennessee	A	C—	B—	C
Texas	B	B—	C	B+
Virginia	B	C+	D+	C
West Virginia	A+	C	C+	D+

Indexes of potential demand, capacity, effort and achievement scored on a national scale from D+ to A+, Southern states, 1957, adapted from Seymour Harris, *Higher Education, Resources and Finances*. "Potential demand" is defined as a number of college-age persons (ages 18-21) per 1,000 population, "capacity" as per capita personal income, "effort" as state and ·l taxes per $1,000 personal income and "achievement" as ·t of college-age population enrolled in college.

The Harris study indicates that generally the states which have the greatest potential demand for higher education (those in which the proportion of young people in the population is high) are the states which have the fewest resources to meet the demand.

The Southern dilemma is often one of low urbanization, low production of taxable wealth and a high birth rate.

Rural states like Alabama, Arkansas, Mississippi and South Carolina have large numbers of college-age young people and relatively small per capita income levels.

There is a similar inverse relationship between a state's capacity to meet demands for higher education and the relative financial effort necessary to support such demands.

States with high per capita income can achieve educational excellence while using less of their total taxable income than can the states with lower per capita income, all other factors being equal. Conversely, low capacity states like Mississippi must make a relatively greater financial effort.

Table 4 gives up-to-date raw data to show the range of figures involved in Professor Harris' analysis.

Summary

Potential sources of new tax revenue are important to higher education because rising enrollments and the expanding role of colleges and universities create a need for substantially higher state appropriations for higher education.

The Southern states are in a difficult position because their commitment to support public higher education tends to exceed that of the nation, while their capacity to meet such responsibility often falls short of the capacity of the average state in the nation. The answer is that many Southern states must use a larger porportion of their resources for education than does the nation as a whole.

While states differ widely in the direction toward which they may turn for additional revenue, the region as a whole can look toward general sales and gross receipts taxes, individual income taxes, property taxes and corporate income taxes. These four sources account for three fourths of the $1,855,700,000 additional revenue potential which the Southern states have at their disposal, according to survey findings.

TABLE 4

STATES WITH LEAST CAPACITY MUST MAKE THE GREATEST EFFORT

State	*Per Cent of Population Which is College Age (Potential Demand)*	*Per Capita Income (Capacity)*	*State and Local Taxes Per $1000 Personal Income (Effort)*	*Per Cent College Age Population in College (Achievement)*
United States	5.9	$2,223	$ 90.55	39.2
SREB States	6.5	1,736	87.64	28.7
Alabama	5.6	1,462	80.44	24.9
Arkansas	5.3	1,341	93.74	26.6
Delaware	4.8	3,013	65.91	33.1
Florida	4.9	1,988	92.56	27.5
Georgia	5.9	1,608	88.04	21.5
Kentucky	5.7	1,543	76.91	27.6
Louisiana	5.5	1,604	117.50	31.8
Maryland	5.1	2,394	83.00	33.1
Mississippi	6.0	1,173	110.80	27.3
North Carolina	6.3	1,574	86.96	24.0
Oklahoma	5.4	1,848	95.79	45.5
South Carolina	6.6	1,397	92.57	20.1
Tennessee	5.8	1.545	87.03	30.6
Texas	5.6	1,924	84.34	34.7
Virginia	6.2	1,848	72.45	23.5
West Virginia	5.2	1,674	86.62	31.3

Differences in potential demand, capacity, effort and achievement in higher education, Southern states, 1961

SOUTHERN REGIONAL EDUCATION BOARD
130 Sixth Street, N.W.
Atlanta 13, Georgia

REVENUE POTENTIALS IN SOUTHERN STATES

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